

CENTRAL INTELLIGENCE AGENCY

OFFICE OF POLITICAL RESEARCH

STAFF NOTE NO. 7

THE POLITICS OF THE UNCTAD COMMODITY CONSULTATIONS:
IMPACT ON NORTH-SOUTH RELATIONS

September 1976

25X1

Staff Notes are occasional papers, undertaken at the initiative of the individual analyst and reviewed by interested colleagues within the Office. They do not receive formal Office review. Questions and comments should be addressed directly to the author

25X1

State Department review
completed

25X1

This fall, the first inter-governmental "commodity consultations" will begin on UNCTAD's (UN Conference on Trade and Development) "integrated program" (IP). The IP is designed to improve substantially the terms of trade for LDCs on basic commodities that account for 60 percent of their exports. This note reviews the significance of the IP issue to US interests in a North-South dialogue, identifies the major differences that are surfacing among the LDCs as they prepare for the negotiations ahead, and discusses the impact such differences could have on the course of North-South relations. [REDACTED]

Background: The IP and US Interests

The resolution on commodities adopted at UNCTAD IV (Nairobi, 5-31 May 1976) calls on that organization's Secretary General to convene by the end of 1978 a negotiating conference on implementing the Integrated Program. The IP, an idea developed by the UNCTAD secretariat during the 1960s and formally called for in the UN General Assembly resolution on the "New International Economic Order" (NIEO) at its Sixth Special Session in 1974,* involves six

* The resolution was declared "adopted" and no actual vote was taken. Some 200 reservations, however, were read into the record by spokesmen from the US and other industrialized countries. [REDACTED]

25X1 basic measures designed to improve substantially the terms of trade between North and South: []

-- the negotiation of a comprehensive agreement covering at least 10 (and possibly as many as 18) commodities, with stockpiling arrangements where appropriate, to help stabilize prices and supplies;

-- the establishment of a common fund to finance the purchase of any buffer stocks that might be needed to support agreed on price ranges;*

-- the establishment of multilateral, or coordinated bilateral, government purchase and supply commitments for commodities;

-- the establishment of a system of compensatory payments to LDC exporters that would make up for any export short falls or slack demand;

-- the expansion of processing and diversification of production in commodity-exporting LDCs;

-- the creation of an indexation mechanism to guarantee LDCs purchasing power from commodity exports that would automatically adjust commodity prices upward as the costs of imports required for development purposes rose. []

25X1

The specifics of the IP are to be hammered out in a series of preparatory meetings called "commodity consultations." The first one is scheduled for 27 September on copper. []

25X1

The US (along with Germany and Japan) opposes the IP. The central argument against the concept is that government interference with international market forces should be kept at a

* The UNCTAD IV commodities resolution calls for a negotiating conference on the Common Fund to be held in March 1977.

SECRET

minimum. Assistant Secretary of State for Economic and Business Affairs, Joseph A. Greenwald, in testimony before the Senate Foreign Relations Committee (27 July 1976), outlined the basic objectives of US commodity policy in the following terms:

25X1

1. To insure adequate investment in resource development to meet market demand in the decades ahead;
2. To improve the functioning of individual commodity markets through case-by-case consideration of specific problems and the adoption of appropriate arrangements;
3. To improve market access for the processed goods of developing countries;
4. To assure security of supply for consumers; and
5. To promote stable growth for the commodity export earnings of the developing countries.

25X1

In addition and in responding to LDC claims about the virtues of the IP, US spokesmen have argued that existing commodity negotiation mechanisms are adequate, that a comprehensive international commodity program would adversely affect some LDCs, and that the financing of buffer stocks should be negotiated on a case-by-case basis only. US proposals have been designed, consequently, to "defend" the price (i.e., establish floors and ceilings and mechanisms to sustain them) of only those commodities (e.g., coffee and tin, but not cocoa) for which fluctuations in price are not symptomatic of chronic supply and demand problems.

25X1

SECRET

In the case of those commodities for which price fluctuations are caused by systemic problems (e.g., too much of it is consistently produced), the US approach has been to promote investment, expand markets, or encourage diversification into alternative production for the countries affected.

25X1

At UNCTAD IV, the US delegation decided not to oppose the commodities resolution (which declared that the delegates were "convinced" of the need for the IP), and permitted it to be adopted by consensus "because we wanted to contribute to the spirit of harmony in the closing sessions of the conference and because the resolution contained a number of elements of our own comprehensive approach...."* However, the US delegation read objections into the record to the effect that commodity consultations would be held only "to determine, without commitment [to the IP principle], the measures which might be appropriate" to each commodity, that these meetings would be convened largely through existing bodies, and that US participation in the preparatory meetings on buffer stocks would only be to determine if a commitment to such a mechanism should, in principle, be made.

25X1

The LDCs nevertheless appear to believe that they can build up enough momentum through the consultations that, like it or not,

* Joint statement by Secretaries Kissinger and Simon, 1 June 1976.

SECRET

the US will be faced with some difficult choices in 1978. That is, as one of the prime advocates of a North-South dialogue, the US will be faced with having to oppose the results of months of effort, and in so doing run the risk of precipitating a return to the spirit of confrontation that pervaded North-South relations in 1973 and 1974. There is also the belief in some quarters that the forthcoming negotiations will further divide the developed countries, and that those who are the most dependent on raw materials supplied by LDCs will side with the advocates of the IP and further isolate the US [REDACTED]

25X1

The significance of the negotiations ahead, then, lies in their impact on the course of North-South relations. At issue is not only whether there can be a dialogue despite fundamental differences over the basic principles underlying it, but also whether the LDCs can, through their solidarity, build a momentum into these negotiations that, through its impact on trilateral relations (i.e., the US, Western Europe, Japan), will change the US position on the IP and other NIEO demands. [REDACTED]

25X1

LDC Differences Over the IP: Impact on Southern Solidarity

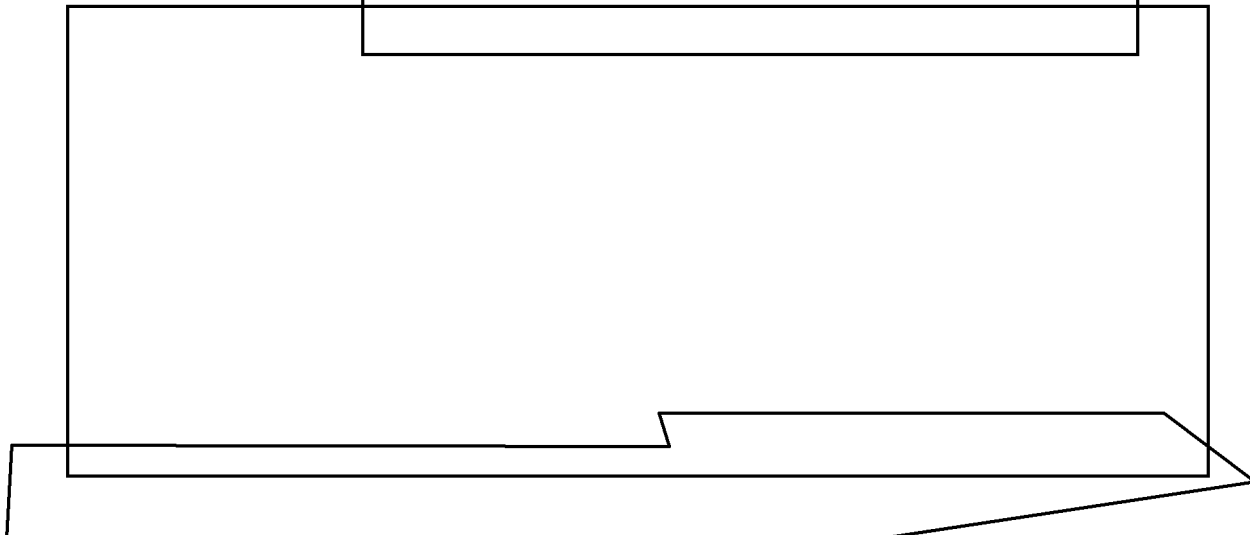
The 113 countries, who today belong to the LDC bloc in the UN (called the Group of 77, referring to its size when originally established) have thus far achieved substantial consensus over

SECRET

SECRET

the need to present their demands in a united front. Solidarity has been maintained because, on the one hand, G-77 leaders* have been extremely careful to avoid debates on contentious issues (e.g., which commodities should be excluded from the IP; whether exclusive trade preferences achieved by groups of LDCs through negotiations with former colonial powers should be extended to all, what actual priority debt moratoria should have) and, on the other hand, because the developed countries -- in considerable disarray over what to do about LDC demands generally -- have not required the LDCs to make any choices.

* The G-77 has a core of influential statesmen who have been consistently called on to manage its affairs. The core group includes experienced negotiators, with established reputations as technocrats or international civil servants, as well as politicians with impressive "anti-imperialist" credentials and solid power bases in their own countries. The latter have contributed slogans and other devices to preserve LDC solidarity despite regional and economic differences, while the former have largely been in charge of G-77 "foreign relations" with the industrial countries.



SECRET

25X1

25X1
25X1

25X1

SECRET

The commodity consultations threaten this solidarity. [REDACTED]

25X1

25X1

25X1

[REDACTED] the impact of automatic anti-colonialism and of political Third World 'causes' tends to fade in the face of parochial economic interests." And no set of issues threatens to give vent to these parochial interests more than those likely to be raised in the commodity consultations because [REDACTED] the commodity issue invokes "almost as many conflicting parochial interests...on the part of the...G-77 as between that group and the developed powers." [REDACTED]

25X1

The basic concern of G-77 leaders is that the forthcoming consultations will rapidly erode the harmony that has made LDC solidarity possible. Ironically, one way it could do this is to begin to succeed. The fear here, in some G-77 circles is that as the consultations proceed, those LDCs which are the poorest and most import-dependent members will feel either that their problems are being overlooked or that the price for concessions on the IP will be the soft-peddling of other demands of more direct concern to them. [REDACTED]

25X1

Another set of fears stems from concern about the impact of the consultations on relations between commodity producers.

SECRET

Producer associations or international commodity agreements already exist for eleven of the eighteen commodities mentioned as candidates for the IP. The signatory states to these agreements disagree about whether the advantages achieved by such associations would be protected by an IP. These disagreements usually follow regional lines, with the Africans often vigorously supporting the IP and the Latins and the Southeast Asians frequently expressing, in private, considerable reservations about its practicability.

In the case of coffee, which is the largest agricultural export of the developing world,* the International Coffee Agreement already includes provisions for export quotas and a price stabilization mechanism. Brazil and Colombia (who supply about 45 percent of the world market) believe the existing agreement should not be abrogated in favor of the IP. Uganda, Angola, and the Ivory Coast (who supply about 15 percent of the world market) do. In the case of copper, the most important non-fuel mineral traded in international commodity markets (\$6 billion in 1974), it is the same story. The Intergovernmental Council of Copper Exporting Countries (CIPEC) includes Chile and Peru, whose support for radical demands to restructure the international economic system (i.e., NIEO) has

* The value of coffee exports is estimated to exceed \$7 billion in 1976.

waned over the past year, and Zaire and Zambia who very much favor the IP for political and ideological reasons. The International Tin Agreement includes Malaysia, Thailand and Indonesia who have reservations about the IP concept and Zaire and Nigeria, with the latter showing signs of becoming one of its most ardent supporters.*

25X1

Discord over which commodities are to be included in the IP are thus expected. Such differences made it impossible for the G-77 to arrive at a common list of commodities to be covered by the IP in the Manila meeting, and led to acrimony behind the scenes at Nairobi between African and Latin American LDCs on the IP and other development issues. At the regional level, moreover, attempts to reach agreement on common commodity policies have proved extremely difficult. observed of the ASEAN effort to develop a common policy on rubber: "After eight months, five states can't even agree on a single commodity." Such experiences are increasingly being mentioned by

25X1

* In addition to the IP issue, the fact that many of the Latin American states and most of those in Southeast Asia are more economically developed than their African counterparts generates tension over the priority given to LDC demands in general. The more advanced states tend to soft pedal in public and oppose in private such demands as LDC debt moratoria, codes of conduct for multinational enterprises, and rules governing the transfer of technology that are likely to antagonize the industrialized countries with whom they trade and from whom they receive their investment capital.

G-77 leaders as an ominous indication of the problems that UNCTAD will encounter as it seeks to design a common program for as many as 18 commodities [REDACTED]

25X1

Finally, there are indications that some LDCs have begun to have second thoughts about the IP concept itself. Such doubts have been expressed recently by LDCs who participate in existing and satisfactory international commodity agreements (e.g., OPEC, the tin and coffee agreements), those who have won exclusive trade preferences from developed countries that they would like to preserve (e.g., the African signatories to the Lome convention), and those which import large amounts of primary commodities (e.g., India, Mexico, Pakistan) and want to do so at the lowest price possible. [REDACTED]

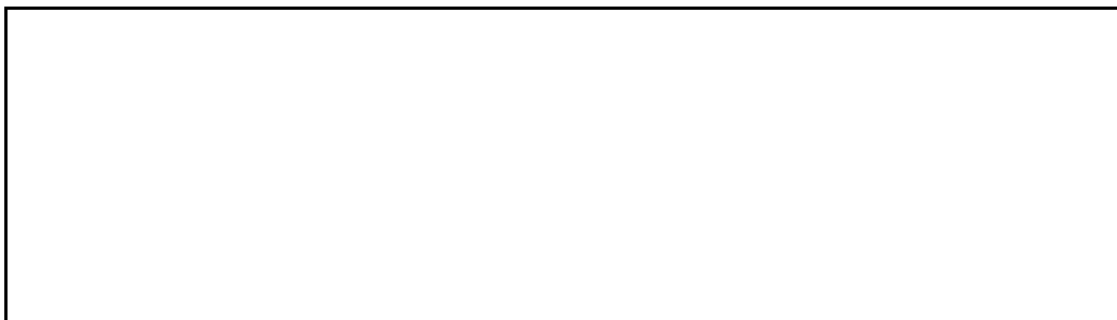
25X1

Impact on Prospects for a North-South Dialogue

Recent statements by G-77 leaders reveal a growing concern that LDC actions to protect their particular commodity or advantage in the IP negotiations will undermine the legitimacy of the various LDC institutions created to manage North-South relations. [REDACTED]

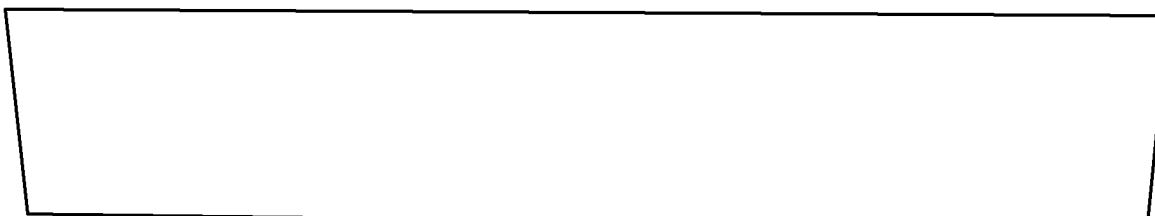
25X1

SECRET



25X1

The sharpening of differences on commodity issues threatens to undercut the influence of moderates in LDC fora. While such states (who were crucial to undercutting the radicals** and



25X1

** While LDC positions are always subject to considerable flux and states that are moderate on one issue support radical stands on others, over the past several years there has emerged a core group of states who consider themselves radical and who have consistently sought to direct and dominate G-77 and NIEO-related international conferences. The radicals include Algeria, Cuba, Mexico, Pakistan, Mozambique, Tanzania, Guinea, Benin, Sierra Leone, Mali, and Guyana. Other states that show signs of embracing a radical, confrontation-oriented approach are Nigeria, the Philippines and Indonesia.

25X6

The moderates include most of Latin America, Malaysia, Thailand, Ivory Coast, Zambia, Kenya, Liberia, Senegal. Zaire and Peru, hitherto associated with the radical position, have shown signs of shifting to a more moderate position along with India, Sri Lanka, and Yugoslavia. Finally, the major oil producers -- Saudi Arabia, Kuwait, UAE -- have consistently adopted a low profile in all North-South gatherings, neither encouraging the radical members of OPEC nor wanting to invite pressure for greater support to LDC causes that would require extensive financial contributions to Third World development projects and funds. This latter objective has led to growing LDC criticism of OPEC's lack of support for the IP and what has been branded "obstructionism" in efforts to establish a UN special fund for Agricultural Development.

25X1

SECRET

SECRET

promoting a dialogue between North and South) say in private that they now realize that each commodity must be negotiated separately, they also say in private that they have supported the IP in order to retain credibility in LDC gatherings. This ploy worked as long as there was no need to make choices. Now that the moderates are involved in commodity consultations, national interests may override both the desire for solidarity and influence. And, as individual commodity exporters make their deals (as it were), the G-77 could well return to being a rhetorical platform for radical and very poor LDCs rather than a serious negotiating body.

25X1

In sum, the differences that have long been beneath the surface in the G-77 will likely rise rapidly once the commodity consultations are underway. Such differences will probably contribute to some outcomes consistent with US objectives (e.g., at least tacit acceptance of the case-by-case approach). But these differences would also lead to the further polarization among the LDCs vis-a-vis the developed countries such that the moderates will no longer be able to influence G-77 strategy and tactics. The positions and tactics of the radicals could thus become more extreme and some states that have hitherto not supported confrontation may be more inclined to do so. These developments would make it increasingly difficult to conduct US-LDC relations in an atmosphere free from confrontation and to manage and sustain a North-South dialogue.

25X1

SECRET